

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Integrate Their Gas Transmission Rates, Establish Firm Access Rights, and Provide Off-System Gas Transportation Services.

Application A.04-12-004
(Filed December 2, 2004)

NOTICE OF EX PARTE COMMUNICATION

Henry D. Nanjo
State of California, Department of General Services
707 Third Street, 7th Floor, Suite 7-330
West Sacramento, CA 95605
Telephone: (916) 376-5113
Facsimile: (916) 376-5088
E-Mail: henry.nanjo@dgs.ca.gov

Date: December 1, 2006

Attorney for State of California, Department of
General Services, Natural Gas Services

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of San Diego Gas & Electric Company (U 902 G) and Southern California Gas Company (U 904 G) for Authority to Integrate Their Gas Transmission Rates, Establish Firm Access Rights, and Provide Off-System Gas Transportation Services.

Rulemaking A.04-12-004
(Filed December 2, 2004)

NOTICE OF EX PARTE COMMUNICATION

Pursuant to Rules 8.2, 8.4 and 8.5 of the Commission's Rules of Practice and Procedure, the State of California, Department of General Services, Natural Gas Services (DGS) gives notice of the following *ex parte* communication in this proceeding. The *ex parte* meeting was initiated by Henry D. Nanjo, Staff Counsel for DGS.

At approximately 2:00 p.m. on November 27, 2006 Henry D. Nanjo, Mr. Marshall Clark, Manager DGS Natural Gas Services (NGS) and invited guest, Mr. Norman Pederson met with Commissioner Chong, Mr. Andy Campbell, and Ms. Lynn Carew in Commissioner Chong's office at the California Public Utilities Commission located at 505 Van Ness Avenue, San Francisco, CA 94102. Communication was oral and written, (Attachment 1 – copy of which is attached to this Notice).

Mr. Nanjo, Mr. Clark and Mr. Pedersen provided a description of DGS's NGS program and discussed the reasons why NGS is opposed to Firm Access Rights. Mr. Clark and Mr. Nanjo explained that the FAR proposal in the Proposed Decision (PD) and Alternate Proposed Decision (APD) would be especially difficult for DGS, because it would layer increased complexity and decreased customer flexibility considering existing contracting rules. The complexity and decreased transparency resulting from FAR would make market manipulation easier than it is currently. Mr. Pedersen also provided information regarding the history of this matter and

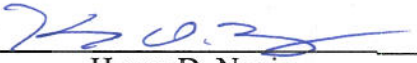
additional reasons for opposing the PD and APD because they implement Firm Access Rights.

To request a copy of this notice, please contact:

Ms. Despo Charles
Department of General Services, Office of Legal Services
707 Third Street, 7th Floor, Suite 7-330
West Sacramento, CA 95605
Telephone: (916) 376-5093
Facsimile: (916) 376-5088
e-mail: despo.charles@dgs.ca.gov

Respectfully submitted this December 1, 2006 at West Sacramento, California.

Respectfully submitted,

By 
Henry D. Nanjo

Attorneys for DGS, NGS


CERTIFICATE OF SERVICE

I, Despo Charles, certify that I have on this 1st day of December 2006 caused a copy of the foregoing

NOTICE OF EX PARTE COMMUNICATION

to be served via e-mail to all parties on the Commission Service List for A.04-12-004 and to only Craig V. Richardson by United States mail (on December 1, 2006).

I declare under penalty of perjury that the foregoing is true and correct. Executed this 1st day of December 2006, at West Sacramento, California.



Despo Charles

A. Department of General Service (DGS) Natural Gas Services (NGS)

- Manages statewide natural gas procurement program for a wide range of state and other public sector entities.
- NGS projects purchase of over 28 million MMBtu's of natural gas for its participants in FY05/06. (Approximately 1.3% of all the natural gas used in the State).
- Based on current market prices, the program expects to bill over \$235 million dollars this fiscal year.
- NGS buys gas collectively for the participants.
 - This allows a far wider range of purchasing techniques which allows significant risk management protection to the customers.
 - NGS actively hedges gas requirements and, by assembling a carefully managed portfolio of gas futures, is able to partially mitigate gas price spikes and their harmful effects on public sector operating budgets.
 - The components of the prices charged to customers are commodity costs (a mixture of hedged and spot market prices), transportation (paid to local gas utility companies), and the NGS fee (currently \$.0057 per therm).
 - When natural gas prices spike, as they have this year, program price hedging protects its customers from some of the budget impact-- this fiscal year, NGS customers have paid almost 10% less than full market rates for their gas supplies.
- Participants are limited to non-core service (gas meters using more than 250,000 therms per year).

NGS program participants

- Currently, participants in NGS program are Executive Agency non-core meters, and many universities and colleges, cities, counties and special districts.
- Participation in NGS program is optional and based on long-term agreements with most customers contracting with NGS for three or more years.

B. "FIRM ACCESS RIGHTS" ("FAR") PROPOSED DECISIONS A.04-12-004

FAR is not just a solution in search of a problem; it creates problems.

The Proposed Decisions:

- Would allocate SoCalGas receipt point capacity through an overly complex process with unpredictable results.
- Would create a new layer of unnecessary charges – (5¢/dth/d for FAR, 5¢/dth interruptible FAR).
- Allows marketers to compete against customers for access rights.

The FAR Program Is Unnecessary:

- Deliveries are highly certain into the SoCalGas system & demand is declining.
- Claims that there may be future problems are purely speculative.
- Better to adopt solutions accurately matched to fit the problem.
- Off-system services and pooling can be adopted without FAR.

The FAR Program Would Create New Problems:

- Decreased customer flexibility to seek low cost gas. (Currently, customers have access to all receipt points at no extra charge.)
- Complexity and increased administrative costs.
- Reduced liquidity of the SoCalGas border market.
- Increased risk for customers, including the risk of increased gas costs.
- Increased revenues for utilities that already have 100% risk protection.
- FAR proponents seek an access charge that is high enough to prevent hoarding, but FAR itself is what makes hoarding possible.
- Discourage development of new supply infrastructure (LNG, new pipelines & expansion of pipelines).
- Shift revenue requirement recovery outside of a BCAP.